

CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

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SUMMARY\*

Overview. The Federal Reserve Bank reports indicate further slowing in economic activity in January in some Districts and generally sluggish growth over most of the nation. Slower growth was reported by Cleveland and Richmond; Chicago reported the economy of the Seventh District was probably the weakest in the nation. Activity was described as sluggish or showing little strength in the Third, Ninth and Tenth Districts. In contrast, improvement in economic activity was reported in the Eleventh District, and factory employment and hours worked rose moderately in the Sixth.

Consumer Spending. Retail sales slackened in most Districts in January following an upsurge around Christmas. An upsurge during or prior to Christmas was reported by New York, Philadelphia, Cleveland, Atlanta, Chicago, Minneapolis, and Dallas. Most of the Districts, however, report sales declines and softness following the holidays. Those specifically reporting declines include San Francisco, Dallas, Kansas City, Minneapolis, St. Louis, Cleveland and Philadelphia.

Manufacturing. Manufacturing activity is varied among the Districts. With few exceptions the reports indicate some slowing or sluggishness in manufacturing. Boston reported a slight decline in output and new orders; Philadelphia, small cuts in payrolls and working hours; Richmond, a slight reduction in shipments and a decline in new orders; and,

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\*Prepared at the Federal Reserve Bank of St. Louis

Chicago, that serious problems exist for the major District industries (motor vehicles and components, farm equipment and construction equipment). Philadelphia reported no change in overall manufacturing activity, while Cleveland reported strong steel shipments, aerospace business in excess of capacity and very strong petrochemical business. Rising manufacturing activity was reported in both the Sixth and Eleventh Districts led by a strong wood, pulp and electronics industries in the Sixth, and a booming oil and gas drilling equipment industry in the Eleventh District.

Construction. Homebuilding activity is quite weak or declining according to District reports. On the other hand, relatively strong commercial and industrial construction was noted in the Richmond, Chicago, St. Louis, and Dallas Districts. High interest rates were commonly cited as the main factor depressing home sales. San Francisco, for example, reported that most potential homebuyers cannot qualify for loans at present interest rates. Cleveland and Dallas noted, however, that home sales were somewhat higher than might be expected at these high interest rates because of special financing arrangements. These include lower rates to buyers of homes on which the lender holds the construction loan (Atlanta), federal government programs (St. Louis) and local housing bonds (Dallas).

Inventories. Relatively high interest rates have reduced the desired level of inventories according to several reports (Chicago, Minneapolis, Dallas and San Francisco). No widespread inventory buildup was reported but some Districts noted inventory excesses. Richmond reported that nearly one-half of all manufacturers in their District felt that current stocks are excessive even though actual stocks of materials and

finished good were down slightly. Some retailers and manufacturers in the Tenth District reported slightly higher than desired inventories. Dallas noted that inventories of unsold new homes are rising, although builders did not consider them excessive.

Financial Developments. Recent loan activity is mixed. Increases in business loan activity were reported by Philadelphia, Dallas, and at New York at year-end. Declining or sluggish activity was reported by Richmond, Minneapolis, and St. Louis. Among other types of loans, such as real estate, agricultural, and consumer loans, declining activity was generally noted. Financial officials reported a somewhat greater response to NOW accounts than expected. Most funds placed in NOW accounts are coming from existing accounts at the institutions, according to Dallas and San Francisco. San Francisco reports that NOW accounts appear to be creating a higher cost structure for all financial institutions, and St. Louis reports that some bankers expect their introduction to depress profits.

Agriculture. Lack of moisture throughout much of the nation is reported to be endangering the nation's winter wheat crop and, if sustained, could endanger spring-planted crops as well. The Kansas City District, a primary wheat growing area, reports that the winter wheat crop is in "reasonably good condition," but that moisture will be needed soon to prevent its deterioration. Atlanta reported that Florida's orange and vegetable crops were substantially reduced due to unusually cold weather.

FIRST DISTRICT - BOSTON

Economic activity in the First District is largely unchanged since the last Redbook report, and most respondents do not foresee major changes for either better or worse in the next several months. Retailers are generally satisfied with Christmas sales. Final reports are not yet in but the consensus is that sales were late but fairly good. Among manufacturers there is a suggestion of a slight weakening since November; some of the smaller high technology companies are starting to see declines in orders. The well publicized shortage of natural gas in Massachusetts has passed; it does not appear to have had a major impact on business activity.

Retailers report that Christmas sales were vigorous, particularly in the final days. However, it will not be possible to know whether the 1980 season was profitable until final inventories are completed. Although the volume figures are encouraging, sales and markdowns were widespread. Retail inventories are under control with the possible exception of some consumer durables.

Surveys of New England purchasing agents suggest a slight decline in manufacturing production and new orders since November. Several sources have mentioned that some of the smaller manufacturers of computers and other high technology products are beginning to see declines in orders and backlogs. On the other hand, two large high technology companies in the instruments and electronic components industries report that orders in December were strong relative to the rest of 1980. However, these firms are still taking a cautious approach to early 1981. A large manufacturer of appliances reports that the demand for lamps and other small items has

strengthened while the demand for large appliances remains weak.

Increases in the prices of industrial materials and components seem to have become more prevalent. The chief economist for one of the nation's largest manufacturers expressed concern that debt service has become such a large component of total costs for many firms that the short run effects of higher interest rates on business costs are likely to outweigh the favorable long term effect on inflation of a slack economy.

Professors Eckstein, Houthakker, Samuelson, and Solow were available for comment this month. All agreed that the Fed made a creditable effort to follow the new operating procedure in 1980. Houthakker would like the procedure to be pursued even more vigorously in the future. However, Eckstein, Samuelson, and Solow feel that if the new procedure results in extreme interest rate volatility, it may be necessary to rely more on policy makers' judgment and general understanding of the economy.

Professor Eckstein believes the new operating procedure has not been a success. "I'm not quarreling with the average level of interest rates during 1980, but the monetarist experiment caused real interest rates to swing from -6 percent to 7 percent." He believes interest rates are now too high. "If the Fed holds the federal funds rate at 20 percent until real growth is negative, it ought to be fired. A funds rate of 14 or 15 percent is sufficient to reduce growth without inviting a crash or sacrificing capital formation." In retrospect, "the experiment was expensive, but it's the tuition we'd pay for a more skillful monetary policy in the future. If the Fed has not learned to pay more attention to real interest rates, however, the experiment was a disaster."

Professor Houthakker is "mildly encouraged" by the first year of experience under the new monetary policy. Citing the fourth quarter spurt in real GNP, he believes the real effects of high interest rate volatility are not as large as some believe. Houthakker thinks the economy is receiving the right medicine from monetary policy but not from fiscal policy. He argues that a reduction in the deficit would permit interest rates to fall at the same time that money growth rates are reduced. Since M-2 is insulated from effects of NOW accounts, Houthakker advises the Fed to announce M-2 goals and suspend goals for M-1B until more evidence on the extent of substitution is available.

Professor Samuelson does not view the October 1979 change in operating procedure as an important reform. He feels that monetarists exaggerate the gains that would accrue from steady money growth. Nevertheless, he feels that the Fed "gave it a good try" in 1980, especially in view of the fluctuations in money demand that occurred during the year. Although Samuelson suspects the swings in money growth would have been reduced last year "if every member of the FOMC were tortured every time money deviated from its path," he remains unconvinced that close control of the aggregates is an important policy goal. With respect to goals for 1981, Samuelson also feels that it is not reasonable to worry about raising the M-1B range to recognize the effect of NOW accounts as long as M-2 will not be affected.

Professor Solow reads the new operating procedure as a distinct turn toward monetarism, but believes that common sense prevailed in the departures from the procedure that occurred since the new procedure was adopted. Solow thinks that the size of the swings in interest rates

surprised the FOMC. He also believes they contributed to economic instability because of their disturbing effect on investment planning. For 1981, Solow argues that a unified economic plan encompassing both monetary and fiscal policy is necessary. He fears that massive tax cuts may render monetary policy impossible--the only way the Fed could resist the resulting inflation is by causing a severe recession. In his view, the burden of restraint should be borne more by fiscal than by monetary policy. Dismissing the credibility argument, Solow feels that the combination of "tight" fiscal and "easy" monetary policy is the best way to raise the share of investment in GNP.

SECOND DISTRICT - NEW YORK

Business activity in the Second District was mixed in late December and January. After a weak showing at the beginning of the Christmas season, retail sales surged at the end, with the strength reportedly spilling over into the current month. Auto sales slipped for both domestic and foreign makes. Outside of the consumer sector, conditions were also mixed. For companies in the petroleum, chemical, and consumer goods industries, conditions ranged from stable to improving. For companies in the capital goods industries, however, the situation appears to be deteriorating. The respondents generally anticipate sluggish growth in real GNP over 1981, most of which is expected to occur in the second half following the enactment in mid-year of a broad-based tax cut. On the financial side, business loans remain strong while local savings and loan associations experienced a slight net inflow of deposits.

Consumer Spending

Despite a slow start in early December, retail sales ended up being fairly robust during the Christmas season. With but one or two exceptions, retailers characterized their Christmas sales receipts as being "super," "extraordinary," and "excellent." Moreover, helped along by post-Christmas promotional price cutting, the strength in retail sales extended into the current year. The cold weather stimulated sales of winter clothing and heating equipment in the downstate area, but tended to keep some people out of the upstate stores. Inventory levels are being closely monitored.

Auto sales in the Second District continued to languish in recent weeks. In response to the high prices and high interest rates, consumers

have evidently decided not only to postpone purchasing domestic cars but foreign makes as well. Inventories are higher than dealers would like and are being cut back as much as possible. Indeed, as one dealer explained, with the carrying costs of stocking new domestic cars currently running between \$120 and \$150 per car per month and the average gross profit per car sold about \$500 to \$600, dealers stand to lose money if they have to hold on to their inventoried cars for several months.

#### The Manufacturing Sector

Economic conditions in the Second District have lately been rather mixed. Business has apparently held up well for those petroleum and chemical companies which were contacted. Those companies specializing in the production of consumer goods seem to be in a holding pattern, changing neither their inventories nor their capital spending plans. In contrast, those companies which produce capital goods appear to be having difficulties. Even in this sector, however, some companies are evidently doing better than others.

#### The Economic Outlook

The economic outlook is generally for sluggish real growth in 1981. Few companies, however, anticipate an outright decline in economic activity in the near term. Many companies are expecting personal and business tax cuts mid-year and accordingly foresee a modest strengthening in the economy during the second half. The consensus forecast is for real GNP growth of 1 to 1-1/2 percent for the entire year. No one appears to be unduly disturbed about inflation, judging from the fact that only one company even mentioned its price outlook. (Incidentally, that one company thinks the CPI will increase between 10-1/2 and 11 percent in 1981.)

### Financial Developments

In financial markets, business loan demand was strong at year-end, and most loan officers reported that the loans outstanding were not paid down as quickly in the new year as is usually the case. Factories supporting the continued business loan strength include the high interest rates in the bond market and the spread between the prime rate and the commercial paper rate. In the mortgage market, rates on mortgage loans were steady at large commercial banks in New York City, but increased slightly at insured savings and loan associations, according to a recent survey conducted by the local office of the Federal Home Loan Bank Board. The survey also indicated a slight inflow of deposits (net of interest credited) at savings and loans in December, reflecting, in part, growth of NOW accounts.

### Financial Panel

This month we have comments from Donald Riefler (Morgan Guaranty Trust Company), Francis Schott (Equitable Life Assurance Society), and James O'Leary (U.S. Trust Company).\*

Riefler: The Federal Reserve has regained creditability but at the expense of high and volatile interest rates. He expects current rates to recede, but relatively high rates will persist until inflationary psychology improves. A considerable part of present rate volatility is artificial, reflecting the fact that the Federal Reserve has to make certain operating decisions based on forecasts of day-to-day changes in reserve factors that

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\*Their views are personal, not institutional.

are often upset by later information. Both the desk and the banks would be better off if the reserve settlement period were extended or carry-over privileges were increased so that bank money managers could focus more on their views of which rates would balance underlying supply and demand in the money market and less on the need simply to make reserve settlements.

Schott: Federal Reserve policy of late 1980 is beginning to bear fruit in realistic prospects for disinflation. High interest rates are discouraging borrowing activity even in the commercial real estate market, which had been unusually (even speculatively) active until recently.

Very heavy refinancing demands are in the wings. Private bond and equity financing is waiting for a chance at balance sheet improvement. Expected institutional cash flow is sufficient to absorb these offerings. But it is essential to keep Treasury and agency financing at reasonable levels to provide room for a return to more normal financial ratios in the private sector.

O'Leary: The focal point of monetary and other government policies must be that the basic inflation rate is very high and that there is serious danger that it will rise further this year; and the expectation of inflation by decisionmakers has not been reduced appreciably, if at all, by the change in administration. Much of the traditional long-term, fixed-rate capital market is fact moving toward short-term, variable-rate commitments, with this development the result of the expectation of inflation. The implications are that, until there is real and sustained evidence of effective reduction in inflation, there will be a chronic shortage in availability of long-term, fixed-rate financing and long-term rates will remain very high on any substantial volume of financing.

### THIRD DISTRICT - PHILADELPHIA

Reports from the Third District indicate that business activity is sluggish at this time, but hold some hope for improvement by mid-year. Manufacturers report no change in overall industrial activity, but continue to make small cuts in payrolls and working hours. They expect a sharp upturn in the industrial sector to come sometime in the first two quarters, though. Local retail merchants report sales to be slow in January and expect only slight improvement, at best, by July. Credit collections are said to be good. In the financial sector, area bankers report mixed loan activity in January as C&I loan volume is up but consumer loans are off. Looking ahead to July, District bankers expect modest increases in overall loan activity. On the residential construction scene, sales are down again this month as high mortgage rates have discouraged many buyers. In the meantime, contractors and developers are holding the line on new groundbreakings.

#### INDUSTRIAL ACTIVITY

The new year appears to be starting off on a stable note, as area manufacturers responding to the January Business Outlook Survey indicate no real change from last month in overall industrial activity. In terms of specific indicators, both new orders and shipments have increased marginally in January, and inventories appear to be growing slightly as well. On the employment front, however, local manufacturers continue to make small cuts in payrolls and working hours.

Looking ahead to the next six months, survey respondents remain optimistic, anticipating a significant upswing in general industrial activity. Over one-half of the survey participants expect new orders to grow in the first half of 1981, while a slightly smaller portion project increased shipments between now and July. Manufacturers are playing a close hand, however, and are planning cautiously. Respondents to the survey are projecting no changes in stock levels or the average workweek and plan to hold off on

new hirings as well. Increased expenditures on plant and equipment, however, are anticipated.

Prices are up again in January in the industrial sector. Input costs are higher for about 65 percent of the survey participants and almost 40 percent report charging more for their finished products. For the longer term, 9 out of 10 of the responding manufacturers expect to be paying higher prices for raw materials by July, while about 8 out of 10 plan price hikes for the goods they sell.

#### RETAIL ACTIVITY

Following last month's record Christmas sales, area retailers report sales to be sluggish in January compared to year-ago figures. According to District retailers, this is pretty much in-line with their expectations, though, as most shoppers did their major buying last month for the Christmas holiday. Credit card sales are about even with last year's levels and collections are very good. Sales of soft goods, particularly men's and women's quality sportswear, are doing well, while domestic goods such as blankets, towels, and sheets are moving more slowly.

Area retailers continue to plan cautiously for the next six months, expecting sales to run only slightly ahead of year-ago figures, owing partially to the lack of strength in consumer disposable income. According to local merchants, sales performance in the first quarter will set the trend for the first half of 1981. At best, only slight improvement is expected by mid-year.

District retailers were not caught in short supply last month despite the last minute Christmas rush and, therefore, January inventories are in good shape. Area retailers remain cautious and plan no changes in stock levels within the next two quarters.

#### FINANCIAL ACTIVITY

Third District bankers report mixed loan activity in January. C&I loan

volume is up 4 to 16 percent over year-ago figures, with some banks reporting below-prime lending which has boosted their loan volumes to the upper end of this range. Consumer loan activity, however, has dropped 5 to 9 percent this month, but some improvement is expected by mid-1981. January's loan activity is in-line with area banker's expectations, for the most part. Looking ahead to July, contacts expect business loans to show a modest increase, about 5 percent. Retail loans are expected to grow as well, but at a slower rate. District bankers feel that consumers anticipate lower rates in the near future, which will "increase their willingness to borrow."

Local bankers are currently quoting a prime rate of 20 percent. Loan activity should be sluggish over the next six months, they say, which will cause the prime to drop between 300 to 575 basis points from its current level.

With the legalization of NOW accounts effective December 31, 1980, area bankers report vacillating deposit flows in January. The rate of growth of the accounts is faster than had been anticipated for the most part.

#### HOUSING

Housing sales in the Third District are down sharply again this month compared with year-ago levels. New residential sales are reported down 30 to 35 percent from January '80 figures, while resales have fallen 25 to 50 percent. Prices are reported to have been stable over the last six months because mortgage rates of up to 15 percent have discouraged many buyers. At the same time, contractors and developers are holding off on new groundbreakings until interest rates come down. Even then, however, there is some speculation that builders may go back to work only if buyers can secure a mortgage commitment ahead of time.

FOURTH DISTRICT - CLEVELAND

Summary. The slowing of business activity in December and early January appears to be setting the pace for little growth in the first quarter of 1981 in the Fourth District. The unexpected strength of the economy in the fourth quarter of 1980 has led most respondents now to expect a flat first quarter. Steel continues to be an exception, with orders and shipments holding up surprisingly well. Real investment spending continues to decline, but may reach its trough in the first quarter of 1981. Consumer spending has weakened, despite a late surge in Christmas sales. Little activity in housing is reported, with some lenders raising mortgage rates to as much as 16½% for an 80% loan.

Outlook. Unexpected strength last quarter has caused several respondents to back away from earlier predictions of a decline in real GNP during the first quarter of 1981. A resumption of inflation psychology following the removal of credit restraints and a lessening sensitivity to interest rates are often cited as reasons for the relatively strong performance in the fourth quarter. However, a bank economist also lists a substantial increase in federal spending and widespread optimism after the third quarter rebound as additional major factors. Several respondents expect "high" interest rates to contribute to first quarter flatness, but note that effects have been slower and less severe than in past periods of relatively high interest rates. A capital goods producer states that availability of credit has not been a problem as in past periods of tight money and believes that the shock of record high interest rates is wearing off. Respondents typically forecast fourth quarter 1980 to fourth quarter 1981 growth of 2% in real GNP and 10% in the implicit price deflator.

Steel. Steel shipments in January remain strong, according to an industry economist, although new orders are running well below December's rate.

However, January's orders are considerably better than expected for early 1981. Inventory adjustment remains the major source of strength, with steel consumers no longer trimming inventories, except perhaps for industrial machinery, and steel service centers continuing to build inventories. Steel consumption has held up better than expected, according to an industry economist, because the auto industry has not deferred or canceled orders. Orders from the auto industry were lean to begin with, but an industry economist expects deferrals to begin in February. The steel industry made profits in the fourth quarter of 1980 (in some cases, sufficient to offset year-to-date losses), according to one producer, and may make profits in the first quarter of 1981 if orders continue to hold up.

Capital Goods. Investment spending remains weak in January, although some sectors continue to show strength. A capital goods producer reports that their aerospace business is stronger than their capacity to produce and their petrochemical business is very strong with no prospect of slowing. However, orders for industrial equipment began softening in November and mobile off-road equipment is still off over 50% from the latest peak. High interest rates may be a cause of the softening, especially among suppliers to the auto industry. A durable goods producer states that, with the special boost from the locomotive and airlines industries, company orders in the fourth quarter of 1980 were equal to the fourth quarter of 1979 (in real terms). An economist for a machine tool producer notes some pickup in small cutting tools orders, which reverses a downward trend since early 1980 for the company. A bank economist expects a 3% real decline in total business investment in 1981, with some improvement beginning in the second half.

Consumer Spending. Retailers and producers of consumer goods are generally bearish over near-term spending prospects. Although retail sales

surged during the closing days of the Christmas shopping season, an economist for a major department store chain does not view the improvement as a shift in consumer buying or attitudes, because the increased sales only compensated for earlier weaknesses. However, inventories are generally lean, because retailers have been cautious with order placement. Across-the-board declines for food stores, drinking and eating places, and department stores are reported by an economist for the consumer goods industry. Food price increases may drop from a 12% rate to 8% because of better-than-expected supplies for wheat, soybeans, beef, pork, and poultry. Auto sales have shown no improvement in recent weeks, according to an area auto dealer. An auto industry economist reports that small car sales are doing well, but expects overall sales to drop from an 8.8 million rate in the fourth quarter of 1980 to 8.6 million in the first quarter of 1981. A bank economist reports no pickup in overall consumer borrowing and notes that the lending rate on auto loans, at 14 to 15%, is too high to generate much demand.

Housing. Housing activity is more than seasonally weak, according to area realtors and mortgage lenders, but "high" mortgage rates have been less of a deterrent than expected. Because interest rates have been high for some time now, according to a bank economist, some buyers can no longer wait for more favorable borrowing rates. Innovative financing is also enabling buyers to accommodate to the higher rates. An area real estate dealer estimates that 60% of transactions in recent months have involved non-conventional mortgages. However, the dealer reports that January sales, which are usually double the December level, are currently running behind December's rate. An S&L official expects little improvement until the third quarter, if mortgage rates would drop to the 12 to 13% range.

The reason loan commitments have not fallen as much as expected, according to an economist with a regional FHLB in the District, is that S&Ls have been able to raise money and build new liquidity. NOW accounts particularly have attracted larger amounts of funds than expected. While some switching from passbook accounts has occurred, an S&L official reports that new money is being attracted. Despite offering less competitive terms than area S&Ls, a bank economist also notes a net increase in funds from NOW accounts.

FIFTH DISTRICT - RICHMOND

Overview

Fifth District manufacturing activity has slowed somewhat in recent weeks but, on balance, remains reasonably strong. A majority of firms responding to our survey report shipments and new orders level to slightly higher over the month, but the number reporting declining activity was up from the last survey. Retail sales showed decided strength over the survey period and sales of big ticket items continued to keep pace. Inventories at retail were up substantially over the month and now exceed desired levels. Manufacturing inventories, despite declining in size, also grew relative to and remain somewhat above desired levels. Expectations of future activity are decidedly less buoyant than at the time of our last survey.

Consumer Spending

Retail sales have been brisk of late and big ticket items seem to have held their own. A majority of retailers surveyed report increased sales and in no instance was there a report of activity being down over the month. Once again consumers are moving toward quality and durability in items purchased. Retailers do report widespread inventory accumulation in excess of desired levels, but in some instances part of the growth was planned. Employment was up slightly among retailers. There is some sentiment for increasing the size and number of outlets. Prices, paid and received, continued to rise across a broad front.

The Manufacturing Sector

On balance, our latest survey of manufacturers indicates a slight reduction in shipments during the month and somewhat greater declines in new orders and order backlogs. Inventories of both materials and finished goods were down slightly from the last

survey period but grew relative to desired levels. Nearly half of those responding now feel current stocks are excessive. Almost one-third of them find current plant and equipment capacity in excess, but there continues to be some scattered sentiment for enlarging current expansion plans. Employment and the length of the average workweek both fell broadly over the period. Gains in prices, including employee compensation, continue increasingly widespread.

This weakness in manufacturing has not yet cut across the majority of industries in District, nor has it come to pervade any single industry. Several of the District's major industries, textiles, furniture, and paper, for instance, continue to report stable to slightly stronger activity. Much of the reported weakness is concentrated in such industries as chemicals, electronics, electrical machinery and equipment, and shipbuilding. In the primary metals and building materials sectors performance is spotty but there are still individual reports of strength.

#### Housing and Construction

Home construction continues weak in most area of the District, but earlier reports of severe depression may have been overstated. It is fair to say that performance in this sector has exceeded recent expectations. Inventories of new and previously occupied housing remain high, but for the most part do not appear unmanageable. In addition, some of the slack in the residential field is being taken up by the commercial and industrial sectors, where activity is surprisingly strong. As a result, total construction, while somewhat below normal levels, is not an area of severe weakness.

#### The Financial Sector

Commercial and industrial lending by the District's large banks has declined since the first of the year, as have real estate and consumer lending.

There remains, however, little expectation of any significant change in loan demand in the immediate future. For the most part, Richmond's banker directors do not share the view that recent pressure on short-term rates is attributable to a preference for short maturities among borrowers who normally borrow long term. One of them feels that it is the banks, not the customers, who are structuring loans toward shorter maturities.

#### The Economic Outlook

Our survey respondents and directors have become decidedly less optimistic about the short-term outlook since late last year. Over a third of the manufacturers surveyed expect the general level of business activity to decline over the next six months. Those same respondents and a majority of our directors expect activity in their own areas to be unchanged to slightly lower over that period. Only retailers, on balance, expect their business to improve.

## SIXTH DISTRICT - ATLANTA

Business activity has been generally mixed in the District recently. Retail sales exceeded expectations, but auto sales were off considerably. High mortgage rates continued to restrain home building. Factory employment and hours worked picked up, although areas of weakness are still evident. Florida's food crops were heavily damaged by a cold snap.

### Consumer Spending and Inventories

A last minute holiday buying surge, coupled with strong post-Christmas sales, put many retailers well over sales projections. Sales at one large retail chain were reported as superb, and a spokesman for a discount operation said recent sales have "come on strong." Encouraged by widespread markdowns and promotions, shoppers turned out in record numbers. Sales of home entertainment items were up sharply. Consumers were taking more time to shop--looking for quality. They were also reluctant to incur new debt: charge sales were down and cash purchases rose notably.

Heavy promotions have not been successful in reviving new car sales as yet. Most dealers report sales off substantially from last year. High floor plan interest costs are hurting many distributors. Dealers argue that by being forced to keep a slim inventory, they are losing potential buyers. Despite the current gloom, many dealers believe better times are not too far off.

### Financial and Construction

New home sales were nearly at a standstill throughout the District due to the high level of mortgage interest rates. Even the "hot" condominium market of south Florida has slowed. Speculative building has about ceased.

A large Atlanta home builder, whose profits have dropped by a fourth, announced plans to reduce his operations substantially. Many home builders are now seeking remodeling contracts, and others are trying to enter the more active commercial market. There is concern that a housing shortage will develop because builders are not building and potential demand for homes is still growing. Home price increases are expected to persist because of rising construction costs.

Mortgage applications at savings and loans have slowed to a trickle. Lenders are struggling to devise ways to help families buy houses. One popular technique is for the lender to offer discount rates to buyers of homes on which the lender holds the construction loan.

Commercial construction was mixed. Many companies were delaying new projects until interest rates come down. The number of nonresidential contracts weakened in late 1980.

#### Employment and Industry

Factory employment and hours worked rose moderately in the District. Area plywood plants are approaching full production. Our directors noted heavy exports of wood and pulp from the Jacksonville, Florida port and strong exports of lumber through Savannah. Employment gains in the expanding south Florida electronics industry more than offset employment losses by several industrial groups there. In Louisiana, rapidly increasing oil and gas activity is attracting smaller service industries, diversifying the area economy. The outlook for potential oil and gas drilling in southeast Mississippi was characterized as excellent. Permits for "wildcat" wells have increased 20 percent over last year. Textile companies in Alabama are spending more heavily on expansion and improvements.

On a less favorable note, General Motors has closed its Lakewood, Georgia plant for a two-week period to trim subcompact inventories. The farm equipment business in Georgia and Mississippi is fighting for survival. Inventories have been allowed to dwindle. Farmers have little or no money to invest because of a combination of drought-caused losses and high interest rates for conventional funds.

The tourist industry is moving at a record-breaking pace. Hotels in central and south Florida reported near-capacity crowds during the holidays. Disney World had to close its gates early due to overcrowding. Miami-based cruise businesses were thriving. The Sugar Bowl and the Super Bowl kept tourist business near capacity in New Orleans, and the Mardi Gras will keep activity strong there at least through mid-February.

#### Agriculture

A bitter cold spell in early January devastated portions of Florida's food crops. Officials estimated orange crop losses at 18 percent, but heavy stocks of orange juice concentrate from the previous crop are expected to limit the rise in retail prices. The state's vegetable crops were damaged also. Sharp price increases for tender vegetables (tomatoes, sweet corn, and squash) are a virtual certainty.

The continuation of unusually dry weather in the Southeast is restricting yield projections from the District's winter wheat crop. Planted acreage was expanded by 60 percent in the fall in response to bright income prospects from anticipated normal yields.

## SEVENTH DISTRICT - CHICAGO

Summary. The economy of the Seventh District is probably the weakest in the nation, with no improvement in sight. Its dominant durable goods industries, both consumer and capital goods, are operating well below capacity. Some companies, however, report a recent uptrend in orders. While credit is available, high interest rates are severely restricting activity, especially housing and vehicles, but also inventory and capital spending policies generally. Some S&Ls face possible financial crises. Unemployment is high and jobs are hard to find. Retail sales were strong just before and after Christmas, but may have slowed recently. Farmland values rose again in the fourth quarter.

Seventh District problems. The Seventh District has probably been impacted more severely than any other by the economic problems of the past two years. Industries concentrated here--especially motor vehicles and components, farm equipment, and construction equipment--are in deep trouble with no improvement seen in the months ahead. Instead of counterbalancing a slump in industry, as has happened in the past, the district's farm sector also has been depressed. Economic stringencies, strongly reinforced by outward migration of people and industry, have made the housing situation much worse here than nationally. High and rising energy prices have had a relatively more harmful effect here, mainly because of heating costs. The district has received little benefit from the energy boom or the defense buildup.

Labor markets. New unemployment insurance claims remain at high levels throughout the district. Help-wanted lineage in Chicago papers was

40 percent below year ago in the fourth quarter, and January has been about as bad. Although computer programmers, nurses, and certain other specialties are in short supply, demand for workers, generally, is very weak. Some examples: (1) an erroneous report that a Chicago-area major steel company was hiring attracted several thousand people, who created a dangerous mob scene; (2) an ad for bus drivers in Milwaukee brought a deluge of applicants that overwhelmed interviewers; (3) a trucking company reported a much improved supply of qualified drivers; (4) a bank in a smaller Indiana city reported 60 applicants, two-thirds qualified, for one clerical position paying \$7,500. Companies interview many people "overqualified" for available jobs. Quality of entry-level job applicants in the larger cities, however, is deplorable.

High interest rates. Record high interest rates clearly are holding back many types of activity. Loans of all types continue to be available to creditworthy borrowers, in contrast to the situation last spring. However, tighter lending criteria turn away increasing numbers of marginal borrowers. More important, interest as a cost has become an overriding consideration for many businesses, and institutions. Car dealers are being forced out by "killing" floor plan rates--22½ percent, recently. High rates have kept inventories abnormally low for many manufacturers, distributors, and retailers. Some smaller manufacturers who had been expanding steadily are deliberately shrinking their operations in order to hold down interest costs. More larger firms are restricting outlays to internally-generated funds. High rates paid for CDs are seriously undermining many S&Ls, some of large size.

Credit problems. Firms with a "receivables problem" are increasingly widespread. A dramatic stretchout in payments on receivables occurred for some firms in the past year. Partly, this is because of weakened financial

positions of customers, but it also reflects a desire to reduce borrowing costs, and, in the case of cash-rich firms, to increase earnings on liquid assets.

Capital goods. Backlogs for most types of capital equipment and components appear to be declining, but there are notable exceptions. Farm and construction equipment are especially weak with some plants closed. Railroad equipment is in a steep decline and heavy trucks have softened. In contrast, the oil and gas field is swamped with orders. Heavy castings picked up in December, but output is only about 50 percent of capacity. One diversified capital goods producer reported an uptrend in orders in December, followed by a surprising surge in early January, but the reasons are not clear, and this improvement is not reported by companies.

Motor vehicles. Output schedules for cars and trucks are being reduced, and sales estimates for the year have been scaled down. The new slump has affected even the most popular small U.S. and imported cars. The auto industry blames the Federal Reserve for its plight, playing down higher prices. Since consumer loan rates are widely subsidized, the "perception" of high rates is blamed. Dealerships continue to close, and many of the strongest are said to be losing money.

Steel. Steel orders have slowed somewhat, with lead times shortening. Some companies say shipments will be relatively good in January and February, but March is doubtful. However, a leading company is shipping at capacity and expects to continue to do so through March.

Retail sales. General merchandise and specialty store sales surged just before Christmas, helped by price cuts, and remained at a good level into early January. In recent weeks, however, sales slipped back. Several long-

established chains are closing marginal stores.

Transportation. Railroad traffic, except for coal and grain, is depressed. Newly-purchased freight cars are standing idle. Trucking companies are experiencing intense competition under deregulation. Rates are being discounted, and fluctuate daily. Many companies are expected to fold up or merge with stronger firms. Operators facing nonunion competition are expecting aggressive bargaining with the Teamsters in 1982.

Construction. Home mortgage rates are quoted in the  $14\frac{1}{2}$  to  $16\frac{1}{2}$  percent range, but few customers apply. "Creative financing" takes many forms, for example, one-year rollover mortgages. Housing starts in large district centers were off 70 to 90 percent in 1980 from the 1977-78 level, and virtually zero in some smaller towns. The current picture suggests an even bleaker 1981 if rates do not decline soon. Office building construction continues strong in downtown Chicago with important new projects being started.

Agriculture. Our farmland survey shows a 4 percent rise in values in the fourth quarter, following a 5 percent rise in the third quarter. Liquidity of rural banks continues to improve. A high proportion of these banks are net sellers of federal funds, in part because of soft demand for loans at current rates.

EIGHTH DISTRICT - ST. LOUIS

Eighth District businessmen report that area economic activity has changed little in recent weeks, but are optimistic that conditions will improve by the second half of 1981. Contributing to this optimism are expectations that changes in government policies by the new administration will have beneficial effects. Retailers report that January sales did not rise in real terms. Manufacturing activity remains sluggish in the automobile, aluminum, and chemical industries. On the other hand, manufacturers supplying products for the oil, gas, and military equipment industries reported increasing orders. Construction activity is mixed; nonresidential building continues at a high level whereas homebuilding, particularly single-family homes, is at a very low level. Financial institutions report little or no increase in loan volume. Savings and loan associations offering low minimum balances on NOW accounts report that a sizable number of new accounts have been opened.

Consumer spending remains sluggish, according to area retailers, and some report that January sales were below last year in nominal terms. Retailers, nevertheless, are generally optimistic about 1981 sales, especially after mid-year. Some automobile dealers, however, reported that January sales were above the "low" levels in November and December. Department store retailers noted that heavy promotions have been necessary to move goods. They also reported that credit sales continue to grow at a slower rate than total sales.

Both manufacturers and retailers generally report that inventories are lean and that these low inventory levels are desirable. However, new automobiles and some building products inventories were reported to be greater than desired.

Manufacturing activity, on balance, remains unchanged from last month. While manufacturing representatives generally expect some gain, on average, in 1981, higher interest rates have led several to expect sales to worsen before getting better. Automobile manufacturing remains particularly depressed with employment down about 60 percent from two years ago. A representative of a major chemical firm reported a sizable decline in sales in January after a substantial gain during December, due to anticipation of higher prices. New orders for aluminum declined in the fourth quarter due to lower export demand, and no immediate pick-up is expected. A wood-working firm reported that employment would have to be reduced if sales did not improve. On the positive side, a major appliance firm representative reported that orders had increased significantly in the fourth quarter and that the higher sales were sustained in January. However, a downturn was anticipated in the first quarter. Also, several industries that manufacture products for the oil, gas, automobile repair, and defense industries continued to report increases in orders. A major military contracting firm reported the largest backlog of orders on record.

Single-family home construction continues at a very low level, largely reflecting high interest rates. Homebuilders note that no pick-up of sales is expected until interest rates decline. Some gains in

multi-family construction have occurred in recent months. Most of these projects, however, are partially funded by the government. Much of the decline in the work force formerly engaged in the construction of single-family homes has been absorbed by increased employment in remodeling of existing homes and booming nonresidential construction. Major building projects currently under way in the St. Louis area include office buildings, a large factory, hotels, shopping areas, and a waterway project.

The financial sector reports little increase in loan volume in recent weeks. These representatives generally expect interest rates to fall in the next few months and noted that sharp fluctuations of yields have made investment uncertain. Mortgage interest rates in the St. Louis metropolitan market range from 14-1/2 to 15-1/2 percent. Savings and loan associations that have offered NOW accounts with low minimum balances have received a large number of these accounts, while others with higher minimum balances have received few. Some commercial bankers report that NOW accounts will likely reduce their profits in 1981.

## NINTH DISTRICT - MINNEAPOLIS

In December and January, Ninth District business conditions remained sluggish. General merchandise sales as well as manufacturing and mining production expanded modestly, auto and home sales continued at November's depressed level, and the output of saw mills declined. These weaknesses were reflected in the continuing sluggishness in bank lending. Agricultural conditions, on the other hand, were still quite good, but recent price changes and moisture levels hint that they might not remain as good later this year.

### Consumer Spending

Consumer spending continued weak. According to bank directors and major Minneapolis-St. Paul retailers, a last-minute spurt in holiday shopping boosted general merchandise sales only enough to match November's modest increases. The postholiday drop in sales was no greater than usual, which suggests that general merchandise sales, seasonally adjusted, also expanded modestly again in early January. These modest increases were not accompanied by gains in auto and home sales. In December and early January, the number of new domestic cars sold in the district matched November's low number. Home sales also remained weak. In December and early January, the dollar value of mortgage loan applications at Minneapolis-St. Paul area S&Ls matched November's low dollar value.

### Industrial Production and Inventories

Industrial activity also remained weak. High interest rates and uncertainty about the economy, directors believe, made businesses hesitant to spend and to add to their inventories. Because of this hesitancy, directors

report, most manufacturing and mining production expanded only modestly in December/January as it did in November. Hit much harder than manufacturing and mining was lumber production. Reports from western Montana, for example, indicate that many saw mills have recently shut down or reduced operations.

#### Financial Developments

Reflecting the weaknesses in the district's economy was the continuing sluggishness in bank lending. Bank directors from outside the Minneapolis-St. Paul area report that bank lending did not pickup between November and December/January and that banks have plenty of funds to lend. In the Minneapolis-St. Paul area, loans outstanding at commercial banks did increase modestly between the end of November and early January, but banks still have plenty of funds to lend.

#### Agricultural Conditions

In contrast to the rest of the district's economy, agricultural conditions remained quite good. Even though prices stopped rising, the district in December and January continued to benefit from the big rise in agricultural prices last summer and fall. Furthermore, farmers have had larger than expected crops to sell at these high prices. Final crop estimates, for example, indicate that the corn and soybean crops in Minnesota were, respectively, 8 and 4 percent larger than estimated last November.

Although agricultural conditions have been good, they might not continue to be in the future. Since November, for instance, farm prices have either remained the same or declined. Between November and mid-January, corn and wheat prices did not increase and soybean prices dropped 9 percent in Minneapolis. During this same period, cattle prices did not increase and hog prices declined 8 percent in South St. Paul.

The lack of moisture is also a potential problem in parts of the district. Except for the district's northeastern corner, the district has received very little snow. As of mid-January, the district's eastern half had only about an inch of snow on the ground and the western half had no snow. This lack of snow has endangered the district's winter wheat crop and aroused concerns that the soil may not have enough moisture to get this spring's crops off to a good start.

TENTH DISTRICT—KANSAS CITY

Overview. Business conditions in the Tenth District continue to show little strength. Softness in retail sales is expected to continue for a while, and the short-term outlook for auto sales is viewed as poor. Inventories of retailers and manufacturers are higher than desired. The winter wheat crop is in some danger due to lack of moisture. Loan demand at commercial banks has weakened recently, with loans to the energy industry an exception.

Retail Sales and Inventories. Most Tenth District retailers indicate that total dollar sales in 1980 were 5-10 per cent greater than in 1979. But sales in December 1980 and January 1981 have not shown that much strength in most areas of the District. Sales have been strongest in durable goods and and higher priced items, primarily quality apparel. Most retailers expect the current softness of total sales to continue, at least through the first and second quarters.

A majority of retailers continue to report negligible merchandise cost increases in recent months are reducing upward pressure on retail prices. Most retailers note recent downward pressure on profit margins because of increases in advertising expenditures, utility bills, and other operational expenses.

The recent weakness in total dollar sales leaves most retailers in the Tenth District with inventory levels that are slightly higher than desirable. However, none of the retailers report any plans for extra clearance sales in January or February. All retailers expect to continue past practices of tightly controlling inventory levels, through the first half of 1981.

Manufacturers Inventories and Input Prices. Over half the purchasing agents contacted report that input prices are above their year-ago levels by

10 per cent or less, but with increases as great or greater in recent months than in most of 1980. Lead times on deliveries are satisfactory throughout the District. There has been some undesired accumulation of materials inventories, but most companies are satisfied with their inventory levels. New purchase orders for most companies are down or unchanged from last year. About one-half of the companies contacted report excess operating capacity and laid off workers.

Automobile Sales. District Automobile Dealers' Associations report very sluggish sales and a poor short-term outlook, with high interest rates a major factor. The automakers' finance companies, now charging about 15-1/2 per cent, are the primary source of customer financing. Excess inventories are causing problems for many dealers, especially since they must pay over 20 per cent interest to finance those inventories. Although few dealers have recently gone out of business, more closings are anticipated before spring.

Housing Finance. Savings and Loan Association spokesmen report that savings inflows were somewhat higher in 1980 than in 1979. Most are mildly optimistic about inflows in the near future, mainly because of the introduction of NOW accounts. Demand for residential mortgages continues to be very depressed, and the outlook is bleak. Conventional mortgage rates are in the 14-15 per cent range, and are expected to remain there through early 1981.

Banking Developments. Loan demand weakened at most Tenth District banks contacted this month as borrowers reacted to the high level of interest rates. Only commercial and industrial loans exhibited strength, and much of this activity was concentrated in the energy industry in Oklahoma. Real estate, agriculture, and consumer loans are depressed across the District. Most large banks report a

20 per cent prime rate, up from 18 1/2 per cent in December. At the same time there were scattered reports of increased price competition in response to the weaker loan demand.

Deposits at Tenth District banks were generally up during the past month with much of the increase in interest bearing deposits. Money market certificates show strong growth in response to the rise in yields. At the same time, some of the larger banks are beginning to run off large CD's. All banks contacted began offering NOW's and most report consumer response equal to or greater than projected. Most bankers feel that the bulk of the increase in NOW's is coming from existing demand deposits and from conversion of ATS accounts. Little new money is being attracted to these accounts because of relatively high minimum balances and service charges. Banks report some net outflow of funds in those areas with strong competition from savings institutions.

Agriculture. The District winter wheat crop appears to be in reasonably good condition, despite a lack of snow cover which is needed to protect the wheat seedlings from wind damage and extreme temperatures during February and March. Additional moisture is necessary within the next month to prevent deterioration of the crop. Cattle producers in the Tenth District, many of whom only broke even during 1980, are having some difficulties repaying current loans. Area bankers are requesting that these producers seek partial or total funding for 1981 from the Farmers' Home Administration. Producers in Nebraska have been suffering the most because cattle prices there are lower than elsewhere in the District. Interest rates on short and intermediate term loans at agricultural banks in the District are in the 17 to 18 per cent range. As a result loan demand is presently lower than at any time since the start of the Kansas City Federal Reserve Bank's agricultural credit survey in 1976.

ELEVENTH DISTRICT--DALLAS

Economic activity in the Eleventh District is improved since our December survey, and most respondents express optimism about prospects for business in 1981. Department store sales have slackened somewhat since Christmas, and new car sales have risen slightly. Increased production of durable goods leads the rise in factory output, and drilling activity continues at a record pace. Nonresidential construction is running at a high level, while the rate of housing starts has weakened further. S&L's are making few mortgage loans, but business loan demand continues to expand at commercial banks. The increase in the minimum wage has had little immediate impact on employment or prices.

Dollar sales at District department stores surged in the week before Christmas to produce real growth for the last half of December. Their growth slowed during the January clearances, probably falling below the rate of inflation. Outlets along the U.S.-Mexico border report significant increases in sales to Mexican nationals. Credit-card purchases rose slightly before Christmas but have dropped back since. Retail inventory levels are considered to be manageable by most respondents. In light of high interest rates, merchants have been conservative in placing orders for new merchandise.

Although sales of new cars are slightly higher than in December, they remain well below their level a year ago. Auto dealers report high inventory levels of most models. Floor traffic is growing, however, and that leads some respondents to believe sales will improve.

Production in manufacturing is expanding. Demand for oil field equipment continues to boost production of machinery and metals products. The backlog of orders for offshore drilling rigs has more than doubled in the past year. The time required to deliver drilling rigs and other oil field equipment has stretched out to 14 to 24 months from 12 to 18 months a year ago.

The drilling boom shows no sign of cooling. The number of rigs working is up nearly 30 percent from a year ago. Although tight supplies of rigs and drill pipe are restricting expansion in some areas, the biggest pinch is a shortage of skilled labor. Shortages of petroleum engineers, geologists, landmen, and geophysicists may persist for four or five years, according to industry sources.

The rate of homebuilding is slowing as high interest rates continue to discourage borrowing for interim construction loans and mortgage loans. Some cities also attribute the slack demand to reduced rates of immigration and corporate relocations. The number of unsold homes is edging up, but builders report that inventories are not excessive. Housing sales in 1981 are likely to be somewhat higher than one would anticipate considering usual market factors, because many cities across the District are selling mortgage bonds to help middle-income earners finance purchases of single-family homes.

High interest rates are failing to discourage starts of large commercial construction projects, although the rise in starts of smaller projects is slowing. Construction of office buildings continues at a fast rate, even though leasing activity has abated in some areas.

Commitments for mortgage loans remain low at District S&L's. Many large associations offer only mortgages with variable interest rate provisions. S&L's report a large increase in the number of NOW accounts. Survey respondents indicate most of the initial balances in NOW accounts came from deposits at their own associations. The size of the average NOW account is growing and is expected to level off once customers complete the transfer of other funds into NOWs.

The rise in the volume of loans at District banks continues to be spearheaded by demands of the oil and gas and transportation industries. Consumer loans are growing slowly, although many banks report increased demand for home improvement loans. Banks report a large shift out of ATS accounts into NOW accounts.

The January 1 increase in the minimum wage caused layoffs of a small number of unskilled workers. Some of those workers will likely be rehired in coming weeks. Firms employing a large share of low-wage earners indicate they will take two to three months to assess the impact of the minimum wage increase on their operations. Most will attempt to pass on the increased cost in higher prices rather than lay off workers.

TWELFTH DISTRICT - SAN FRANCISCO

The economy of the Twelfth District remains relatively stable. Most respondents expect very slow growth in 1981. A slowdown in retail sales has been reported after strong sales activity during Christmas. Firms appear to be reducing inventories because of continued high interest rates and expectations of reduced activity in the coming months. Housing sales are described as non-existent because of mortgage rates as high as 18 percent. Unemployment has decreased in recent months but is still regarded as too high. Agricultural prices are also on the high side and are expected to increase. NOW accounts have been widely promoted by financial institutions in the region. It is still too early to measure the impact of these accounts.

RETAIL SALES were reported to be brisk throughout the region during the Christmas season. Although pre-Christmas sales were lackluster, the four days before Christmas and the days after Christmas were unusually robust. Currently, sales in the district have tapered off and expectations are for a further weakening in activity the first quarter of 1981. Sales of consumer durables are expected to decline sharply in the coming months. As a result, firms are reporting modest reductions in inventories. Auto sales are thought to be especially slow because of continued high interest rates. Fear of higher rates in the coming months has generated added concern.

HOUSING activity in the region is at a standstill. Most potential buyers cannot qualify for loans at the present mortgage rates. Mortgage rates as high as 18 percent have been reported. Lenders are reluctant to make fixed-term mortgages at any rate. The housing sales that are taking place are primarily the result of older favorable commitments and special

financing deals provided by the seller. Banks are reporting a rapid runoff in real estate loan applications. Little activity is expected in the coming months. A mortgage rate of 13 percent was said to be necessary before housing activity can be revitalized.

AGRICULTURAL interests are concerned over the lack of rain in the region. If no rain falls, serious problems for the industry could occur. While some agricultural prices are being kept down by large harvests, most agricultural prices remain generally high. Expectations are for even higher prices in the coming months. Some dairy farmers are worried that the increase in milk price supports will decrease milk consumption. The combination of decreased demand and increased supply has created an over-abundance of milk.

UNEMPLOYMENT figures are down throughout the region from previous months. However, unemployment rates are still considerably higher than a year ago. Certain industries and areas still remain hard hit by the recession. The forest products and construction industries have experienced large declines in employment. The outlook for 1981 is for only modest gains in employment.

NOW accounts are the major BANKING topic in the region. Beginning in December, financial institutions heavily promoted NOW accounts. A wide variation in terms was reported. Savings and loan associations tried to win customers by requiring minimum balances as low as \$100. Banks were less inclined to compete for customers and required minimum balances as high as \$2500. A wide variation was also reported in service charges. Promotional advertising on the topic has generally been confusing.

It still is too early to report on the impact of NOW accounts on financial institutions. However, some preliminary indications do appear. The bulk of NOW account balances appear to be coming from existing non-interest-paying checking and low-interest-paying savings accounts. Savings and loans are attracting the smaller balance customers from banks. However, banks are keeping their large-balance customers. In general, NOW accounts appear to be creating a higher cost structure for financial institutions. The increased cost to banks of interest-bearing checking is only slightly offset to the extent that new lower-cost money is being attracted.